

Investment Thresholds and Eligibility Criteria

TF CRM

13 June 2019

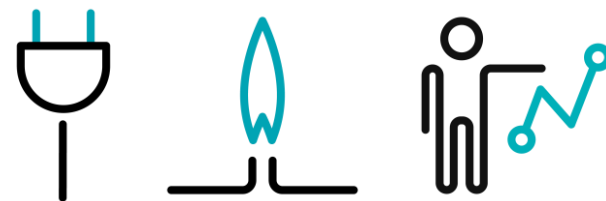


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Goal

Give more details on the methodology to determine investment thresholds and eligibility criteria taking into account comments received

Capacity delivery period



— CREG —

Capacity delivery period

Remark from stakeholders: Allowing to bid in for a multi-year contract but not obliging leads to a risk of strategic bidding in order to secure a high clearing price

The CRM law provides that CREG classifies the capacity in a category of capacities corresponding to a maximum number of delivery periods. It does not provide that the CREG defines the contract duration.

Oblige to bid for the maximum delivery periods gives no guarantee that the price received is lower.

Investment thresholds

— CREG



Investment thresholds (1/5)

Goal

- allow participation to the capacity auction for projects requesting high CAPEX
- in a way it establishes a level playing field between them

Methodology

Levelize CAPEX charges → needs to define:

- a reference CAPEX
- a standard discount rate

Investment thresholds (2/5)

1. Reference CAPEX

15 years threshold could be based on the CAPEX/installed MW chosen from a list of most capital intensive technologies

Among the capital intensive technologies, CREG could choose the pivotal CAPEX to define the 15 years threshold

Investment thresholds (3/5)

CAPEX to define 15 years investment threshold =

- initial CAPEX &
- non recurrent CAPEX &
- CAPEX limited to procurement and construction costs of the main technical components of the investments (physical CAPEX):
 - turbines, generator, heat exchangers, technical buildings, batteries, reservoirs
 - connections to grids (electricity, gas, water)
 - sub-meters, telecommunication devices, IT (hardware)

Investment thresholds (4/5)

2. Choice of the WACC

In order to define the 8 and 3 years thresholds, a standard WACC is used to define the CAPEX corresponding to the same annuity

3. Illustration

Investment threshold for 15 years : 300 €/kW

WACC = 8 %

Investment thresholds (5/5)

3. Illustration

contract duration	Years	15
capex	EUR/MW	300.000
residual value	EUR/MW	0
Installed capacity	MW	400
Total investment	EUR	120.000.000
WACC	%	8%
Annuity	EUR/MW	35.049
Annuity	EUR	14.019.545
contract duration	Years	8
capex	EUR/MW	201.413
residual value	EUR/MW	0
Installed capacity	MW	400
Total investment	EUR	80.565.266
WACC	%	8%
Annuity	EUR/MW	14.019.545
contract duration	Years	3
capex	EUR/MW	90.324
residual value	EUR/MW	0
Installed capacity	MW	400
Total investment	EUR	36.129.728
WACC	%	8%
Annuity	EUR/MW	14.019.545

Criteria

ELIGIBLE COSTS FOR CLASSIFICATION



Eligible costs for classification (1/11)

Goal:

- fix the rules to classify a bid in a category of capacity

Not:

- evaluate if the total investment cost is reasonable
- cap the investment that can be recovered by the bidder through the auction price:
 - no need to take into account the total investment costs
 - simplified approach to limit the administrative burden

Not discriminatory because the level of the threshold will be lower than if all the costs would have been taken into account → does not make more difficult to reach the threshold

Eligible costs for classification (2/11)

Eligible:

Same principle as to determine the 15 years threshold (initial non recurrent CAPEX limited to procurement and construction costs of main technical components of the investments)

Same principle for all kinds of eligible technologies

Eligible costs for classification (3/11)

Same rule for new and existing:

100 % of the eligible CAPEX needed to allow availability of additional MW for the first delivery year, spent between one year before contract award and first delivery year, will be take into consideration in both cases

Only distinction:

As CAPEX of past investments are not eligible and to avoid inciting unnecessary investments a specific monitoring must be put in place for existing capacities

Eligible costs for classification (4/11)

For existing capacities (had been able to deliver MW before)

Investments needed to allow availability of additional MW for the first delivery year means only CAPEX strictly needed to:

- allow capacity to be prequalified
- increase their contribution to adequacy
- connect the capacity to the Belgian control area

Eligible costs for classification (5/11)

Allow capacity to be prequalified

Bidder has to prove to the certification body that with the existing configuration of the capacity unit it was impossible to meet specific prequalification criteria

Eligible CAPEX for a lifetime extension (exceptional non recurrent investment) could be included if the remaining number of running hours at the start of the first delivery period is i.e. < 10.000 hours

Eligible CAPEX = CAPEX needed to meet the prequalification criteria

Eligible costs for classification (6/11)

Add MW in the system

- CAPEX listed above are eligible if the bidder provides to the certification body a technical evaluation that demonstrate their necessity to increase the installed capacity (Pmax)
- The result must be measurable: the # of installed MW in comparison with the past must increase

Eligible costs for classification (7/11)

FEPEG: it is important to take into account that investments contributing to SoS could also simultaneously lead to flexibility increase or efficiency gains

- Investments only contributing to increase flexibility or for efficiency gains without increasing installed capacity are not taken into account → is not the goal of the CRM

Eligible costs for classification (8/11)

FEBEG: Investments in e.g. major overhauls, OCGT by-pass stack,... should be defined as eligible

- Major overhauls are supported by new and existing capacities and a financial provision has to be made each year → no need for a multi-year contract but can be taken into account to determine the intermediate price cap
- A by-pass stack would only increase the available MW if the steam turbine can no longer be used for technical reasons, cannot be rebuild and if the gas turbines cannot be used alone. In this case it avoids closure of the plant → only taken into account in that case.

Eligible costs for classification (9/11)

REMINDER:

‘Not taken into account’ only means : not taken into account to evaluate if the threshold is reached and does not mean that they cannot be included in the bid price

Investments made for other purposes than to add MW in the system can also be financed by successive 1 year capacity contracts. In that case, before deciding to make this kind of investment, investor has to evaluate if his capacity will be competitive in the capacity market for the following years.

Eligible costs for classification (10/11)

FEBEG: CAPEX spent by whom?

= CAPEX invoiced by third party, or self made and valorised to market price

Ex ante = mix of projected (offers) and invoiced/paid CAPEX

Ex post = capacities must be there → CAPEX invoiced/paid

Eligible costs for classification (11/11)

FEPEG: # of offers?

A maximum of two offers will be allowed for the same capacity unit:

- to avoid strategic bidding
- to reduce the administrative burden
- due to the short period to analyze the demands

Control and penalties



— CREG —

Control and penalties (1/2)

FEBEG: procedure in terms of process and content for *ex ante* and *ex post* controls?

Ex ante control

Based on:

- detailed list of planned eligible investments & amount (€)
- certificate from an accredited certification body on the compliance of planned investments to the eligibility criteria
- a declaration on honor from the bidder and the owner of the capacity that to the best of their knowledge and belief, based on reasonable assumptions, the CAPEX will be equal to or greater than the threshold

Control and penalties (2/2)

Ex post control (beginning first delivery period)

- detailed list of planned eligible CAPEX realized & invoices
- second certificate from an accredited certification body on realization of investments and associated costs

Penalties

- classification in the appropriated category of capacity (reduction of the contract length)

Tolerance added: no reclassification if realized eligible costs < i.e. 10 % of threshold allowed

CREG



Commission for Electricity and Gas Regulation